What is the current funding position of the scheme?

The Universities Superannuation Scheme (USS) has recently presented an interim monitoring statement as at 28 February 2022, setting out progress against the Financial Management Plan that was agreed as part of the 2020 Valuation. Such monitoring is important as it helps the Trustee and members to see whether the financial position of the scheme is improving as planned and whether the funding of the scheme, on the basis concluded within the 2020 valuation, is still adequate. It is therefore pleasing to see that the position has improved and that, with the changes now embedded within the funding and benefit structure of the scheme, the deficit is decreasing and the contribution strain is being controlled.

Does this mean that our benefits have been reduced unnecessarily?

The results presented include the impact of these reforms on the funding position of the scheme. Whilst there has been an improvement in the financial position of the scheme, the extent of this improvement would not be anywhere near as significant if the recent reforms had not been approved.

The recent USS changes to benefits and employer covenant arrangements were designed to reduce the scheme's liabilities. Although monthly monitoring reports can only ever provide a snapshot and are prone to volatility, the latest monitoring report issued by USS indicates that the changes appear to be having the intended effect and that, with the changes now in place, the deficit has been greatly reduced. Therefore, far from showing that the benefit changes weren't required, the latest statement shows that the changes are having precisely the effect anticipated. Reversing the changes now would restore the liabilities and the deficit to something like their previous levels.

To illustrate this further, the following table shows how the current funding cost would increase to a greatly increased cost had no reforms been applied.

Date / Basis of assessment	Future service cost	Deficit recovery	Total contribution
31 March 2020 (pre-reform)	37.0%	15.6%	52.6%
Net impact of the 2020 valuation reforms agreed	(11.8%)	(9.4%)	(21.2%)
31 March 2020 (new benefit structure and covenant support measures)	**25.2%**	**6.2%**	**31.4%**
Net impact of post valuation experience (to Feb'22)	0.4%	(6.2%) / (4.2%*)	(5.8%) / (3.8%*)

Monitoring position at end Feb. 2022, including current reforms	**25.6%**	**0.0% / 2.0%***	**25.6% / 27.6%***
Monitoring position at end Feb. 2022 **without** current reforms	40.7%	4.0% / 6.2%*	44.7% / 46.9%*

* The lower deficit recovery figure assumes deficit contributions continue for the remainder of the existing recovery period (18 years) with an assumption for assets to outperform the discount rate by 0.25% p.a. The higher deficit recovery figure assumes a 10-year recovery period with no outperformance.

This illustrates that without the reforms in place, both the deficit and the cost of future service accrual (the cost of providing future benefits) would be significantly higher and together would require a contribution of between 44.7% and 46.9%. Currently, employers and members are paying a combined rate of 31.4%.

Now that the deficit has been reduced, does this mean that we are paying more contributions than we need to? Can the contribution rate be reduced?

Although the deficit is now much smaller, employers are still legally required to pay deficit reduction contributions at least until the next formal valuation. These contributions are now set out in an approved schedule of contributions (agreed by employers, approved by the USS Trustee and submitted to the Pensions Regulator) and are legally payable until superseded at a future valuation. Until the results of the next valuation are known and the outcome consulted and agreed upon, it is highly unlikely that the USS Trustee or the Pensions Regulator would agree to cut the deficit reduction contributions for employers, and they would certainly not do so on the basis of one monitoring report.

Any improvements seen in the funding position and that continue to be seen in the period to the next valuation date will, however, be reflected at that time It is important to note though that the basis for preparing this monitoring statement is very different from the basis for a full actuarial valuation, which will give full consideration to a range of factors, such as inflation, interest rates, mortality and the strength of the employer covenant. However, should the conditions seen in the February 2022 monitoring prevail when the next valuation is undertaken, there may be circumstances where it may be possible to reduce contributions or increase benefits or some combination of both. For example, a further deferral of the CPI cap might be something we would wish to do if the funding position allowed, and if that was the preference of members at that time.

Can the next valuation be brought forward from March 2023 to March 2022?

The optimal time to hold the next valuation of USS remains an important question, and we hope that following the recent reforms, and with improving market conditions, we may see the scheme in a more sustainable position. The University's position is that we have consistently said that the next valuation should take place as soon as possible, but only after important issues of scheme governance have been addressed; without this, we risk finding ourselves dealing with similar challenges experienced during this latest valuation. On a practical level, sticking to the current schedule of holding the next valuation at March 2023 would allow the important work to proceed on low-cost options, the merits of Conditional Indexation, as well as the governance review before the next valuation begins.

UUK has asked the USS Trustee to provide a fuller update on the funding position as of 31 March 2022. They, as we do, also intend to keep this situation under review and remain open-minded as to the most beneficial route for members and employers. We will consider this question further once more information on the March position has been made available.